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Financial Markets

Irving Trust

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Renewed investor interest in key bond offerings this week prompted a reversal of the previous week's price declines. In the short-term markets, rates also trended down, especially in the Treasury bill sector. The markets were aided by continued signs of fundamental weakness in economic activity. Nevertheless, there are some grounds for believing that rates may stabilize in the next few weeks.

Part of the reason is that on Wednesday the Fed again demonstrated its willingness to intervene to prevent the funds rate from dropping below 9%--some concrete support for the view expressed the previous week by New York Fed President Anthony Solomon that the recent massive decline in interest rates was perhaps too rapid. In view of the fact that on May 6 three governors voted against the reduction to 10 1/2% of the lower limit of the Fed funds rate, plus Chairman Volcker's oft-expressed view that interest rates will come down when inflation rates decline, the Fed will probably not be willing to lower its acceptable range for the funds rate soon. However, if the money aggregates show declines in the next two or three weeks, then the Fed might move quickly to reduce rates well in advance of Chairman Volcker's scheduled testimony to Congress in early July.

Corporate bond rates may also stabilize or even move up a bit before giving ground later on. The reason is the immense pressure of new issues on the market, particularly from industrial firms. May set an all-time record for new-issue volume in the corporate sector, and the end of the surge is not yet in sight.

While retail demand was reasonably robust this week, life insurance companies, the major investors in the corporate bond market, are only just beginning to recover from their worst-ever bout with policy-loan disintermediation. Unlike thrift institutions, which pick up deposits again after losing them during high-rate periods, life insurance companies' policy loans tend not to be paid down rapidly as rates fall. Thus their participation in the market will probably be muted for some time to come. The gap may be made up by other participants, but for the near term, supply pressure is much more certain than is the robustness of retail demand. On balance, the summer of 1980 seems to be shaping up like the spring of 1975, when the pressure of a huge supply of new issues--led then, as now, by industrial offerings--forced long-term rates to reverse their earlier declines for several months before resuming their downward path. In a nutshell: Substantial near-term downside risk exists in this sector, though the long-term trend is clearly favorable.

The Fed this week announced a proposal to reduce the minimum maturity on time deposits to 14 days from 30 days. The change, permitted under the Monetary Control Act of 1980, would be the first since the 30-day minimum was legislated in 1933. If implemented, the domestic CD market would come to resemble much more closely the Euro-CD market, where very short-term CDs are quite common. Some contraction in the volume of term RPs and Fed funds transactions might also occur, as banks used CDs to compete for funds in the two-week range.

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Market Yields

	6/6/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	13.00%	14.00%	11.75%
Effective since	6/6/80		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	10.50	11.00	10.25
Repurchase Agreements	10.25	8.25	10.00
U.S. Treasury Issues			
Bills			
3 months	7.50	8.20	9.61
6 months	7.98	8.55	9.80
1 year	8.29	8.90	9.65
Coupons			
2 years	8.85	9.15	9.29
4 years	9.30	9.70	8.80
7 years	9.70	9.95	8.80
10 years	9.88	10.20	8.89
Long Bond	10.00	10.30	8.94
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.80	8.65	10.05
3 months	8.75	8.75	10.07
6 months	8.45	9.05	10.04
1 year	8.50	9.00	9.90
Banker's Acceptances			
1 month	8.70	8.60	10.05
3 months	8.50	8.70	10.05
6 months	8.35	9.10	10.05
Eurodollar Deposits			
1 month	9.69	9.50	10.31
2 months	9.75	9.75	10.38
3 months	9.75	9.88	10.44
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.00	9.00	9.50
1 month	8.00	8.00	9.90
3 months	7.75	7.75	9.88
Bank Holding Companies			
1 month	8.63	8.38	9.90
Dealer Placed:			
3 months	8.50	8.38	9.90
New AA Corporate Utility Bond	11.65	12.00	9.90
Tax Exempt			
6 month Project Notes	4.60	5.05	4.50
1 year AAA Bond	5.10	5.20	N/A
5 year AAA Bond	5.30	5.55	N/A
20 year AAA Bond	6.60	6.75	5.60

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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